

**UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, DC**

In the Matter of

**CERTAIN ELECTRONIC DEVICES,
INCLUDING WIRELESS
COMMUNICATION DEVICES,
PORTABLE MUSIC AND DATA
PROCESSING DEVICES, AND TABLET
COMPUTERS**

Investigation No. 337-TA-794

**MOTOROLA MOBILITY LLC'S SUBMISSION IN RESPONSE TO THE
COMMISSION'S REQUEST FOR SUBMISSIONS ON THE PUBLIC INTEREST**

Date: December 3, 2012

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Motorola Mobility LLC (“Motorola”) respectfully submits the following response to the Commission's invitation for briefing on public interest issues in Investigation No. 337-TA-794.

INTRODUCTION

Motorola is an industry leader, and it has long participated in the development of standards for cellular communications. Motorola sold the first cell phone, and it is a member of standard developing organizations ("SDOs") such as the European Telecommunications Standards Institute (“ETSI”) and the 3rd Generation Partnership Project (“3GPP”). Motorola owns a portfolio of standards essential patents, and it willingly cross-licenses its patents to competitors and relies on FRAND licensing commitments to obtain freedom of action for its own products. At the same time, Motorola has also experienced the problems that can arise when firms implement the relevant standards and, thereby knowingly practice Motorola’s standard essential patents, while refusing to take a license from Motorola on FRAND terms.

Motorola therefore welcomes the opportunity to address the important issues raised by the Commission. Motorola believes that the Commission has the necessary tools to balance the public’s interest in both promoting standardization and the availability of standards-compliant products while also fulfilling Congress’s intent that enforceable patent rights protect technology investment and domestic industry. The need to strike that balance suggests, in Motorola’s view, that neither a categorical rule prohibiting exclusion orders in all cases which involve standard essential patents nor a rule requiring the issuance of exclusion orders in all such cases would satisfy the Commission’s statutory mandate.

Assuming that the patent holder has complied with its FRAND obligations, there should be no categorical rule against exclusion orders. The burden should lie with the respondent raising a FRAND defense. Where the respondent has failed to meet its burden, and the Commission has found a violation of Section 337, the ordinary presumption in favor of issuance

of an exclusion order should apply. In particular, where a party has been *unwilling* to license standard essential patents, even when offered FRAND terms, a rule that would allow it to continue to import infringing products with impunity would undermine both the patent and standard setting systems and the statutory mandate of the ITC. It would, in short, allow infringers to cause the exact harm on domestic industry and United States consumers that Congress intended the Commission to prevent.

Motorola is therefore pleased to submit this brief to answer the following questions posed by the Commission with respect to FRAND-encumbered patents:

Commission Question 1. Does the mere existence of a FRAND undertaking with respect to a particular patent preclude issuance of an exclusion order based on infringement of that patent? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors preclude issuance of such an order.

No, the "mere existence" of a FRAND undertaking does not preclude issuance of an exclusion order. Rather, should the defense be raised, the terms of the undertaking and the facts of the particular case must be examined. For example, while some FRAND undertakings might amount to a categorical waiver of exclusionary relief, others might require only that the patentee make a reasonable license offer prior to seeking to enforce an exclusion order. The Commission could also find that the infringing products fall outside the scope of the FRAND undertaking, for example if they did not comply with the relevant standard, or that the implementer had failed to negotiate in good faith. A case-by-case analysis is therefore appropriate, rather than a categorical rule, since legal, equitable and the statutory public interest factors might all support issuance of an exclusion order in appropriate cases.

Commission Question 2: Where a patent owner has offered to license a patent to an accused infringer, what framework should be used for determining whether the offer complies with a FRAND undertaking? How would a rejection of the offer by an accused infringer influence the analysis, if at all?

No single "framework" can be used to determine the reasonableness of all offers. Rather, FRAND compliance should be assessed on a case-by-case basis, considering all available facts concerning the parties' license negotiations.

BACKGROUND

The authorized remedies under 19 U.S.C. § 1337 promote the public good by creating appropriate incentives to license intellectual property and preventing the importation of infringing goods from harming domestic markets, and in particular, competitors who have properly invested in developing and licensing valuable intellectual property. At the same time, standards development organizations also seek to promote the public good by encouraging both the development and then the adoption and implementation of innovative new technologies—including through the adoption of intellectual property rights policies that seek to balance the interests of innovators and implementers against the background of intellectual property law, including Section 337. There is thus no reason for the Commission to preclude the statutory remedy of exclusion in all cases of adjudicated infringement of standard essential patents. Such a rule would devalue an entire category of patents, create disincentives to participate in standards development and upset the careful balance set by SDOs.

Motorola has particular experience with the cellular telecommunications standards development process, in which it has long been an active participant. Participants in cellular telecommunications standards development (including Motorola) share their research and collaborate on the development of new and better ways to communicate wirelessly. Standards developing organizations will incorporate the best available technology even if it is patented. This collaborative process unquestionably benefits the public. That cellular networks have rapidly improved over the past twenty years to handle ever increasing amounts of data is a testament to the success of standards development—aided by the enforcement mechanisms of the patent laws. The cellular standards at issue do not necessarily reflect arbitrary choices among equally valuable technologies, such as the standardization of number of pins on a plug or the particular voltage for a battery. Rather, these standards often represent significant improvements

in the complex field of cellular communication and represent billions of dollars in investment. The patent system—and its robust enforcement consistent with FRAND undertakings—provides the economic incentive for technology innovators to share their research.

The much discussed concept of "FRAND" licensing derives from participants in standards development agreeing that, if their patented technology is incorporated into the standard in a manner that makes infringement unavoidable, they will agree to license such patents for use in implementing the standard on fair, reasonable and non-discriminatory terms. The undertaking to license an essential patent on FRAND terms, however, is not a license. Nor is it an agreement to forego statutory remedies, particularly where a counterparty is unwilling to take a license for the relevant patents on FRAND terms.

As an affirmative defense to patent infringement, FRAND is grounded in principles of contract law. Indeed, district courts have ruled that FRAND commitments are contracts, and implementers are third party beneficiaries. *See Apple Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, --- F. Supp. 2d ----, 2012 WL 3289835 at *19-21 (W.D. Wis. August 10, 2012) (citing additional authorities). As in any contract case, the words of the contracts themselves—which in this case would be the relevant SDO policies and assurances submitted by the patent holder—must be examined. *See, e.g., Apple Inc. v. Motorola Mobility, Inc.*, No. 11:-cv-178, slip op., 2012 WL 5416941 at *15 (W.D. Wis. October 29, 2012) ("whether Motorola breached its contracts with ETSI and IEEE by seeking an injunction is a question that must be resolved using principles of contract law, not on the basis of economic policy or equitable principles"). In the particular undertaking at issue in *Apple v. Motorola* (W.D. Wis. 2012), for example, the district court ruled that "[t]here is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from

seeking injunctive relief." *Id.* Thus, the Court "conclude[d] that Motorola did not breach its contracts simply by requesting an injunction and exclusionary order [in the ITC] in its patent infringement actions." *Id.*

The public policy of promoting technology innovation through the patent system should allow for all authorized remedies for unwilling licensees. In addition, should a defense be raised, there should not be a single rigid "framework" for evaluating whether a particular patent holder complied with its FRAND commitment. In the market place, bilateral negotiations between two sophisticated companies that both hold intellectual property rights is a complex process. It can take months or years, involving the exchange of information between the companies. That is why most standards developing organizations like ETSI do not involve themselves with commercial terms of cross-licensing, but leave that to the patent holders and implementers. The process is flexible and market-based, and it has worked well for many years to the great benefit of consumers.

The ITC has asked for comment on the "framework" to determine whether a particular "offer" complies with a FRAND undertaking. There should not be a one-size-fits-all answer to this question. As a threshold matter, an offer is a starting point. Following that, there are a number of facts that could inform a tribunal as to whether there has been a breach of the FRAND commitment, and the entire course of conduct between the parties should be evaluated.

Some commentators may point to the value of the smallest saleable unit that may reflect cellular technology. They may also try to import the patent damages concept of the "entire market value rule"—that for damages to apply to an entire product, the patented feature must be the basis for consumer demand—to the analysis of FRAND negotiations. This approach misses the mark. These may be factors to be considered but they are not dispositive for portfolio cross-

licensing terms. If the cellular telecommunications industry historically cross-licenses global portfolios based on the value of the entire device and the FRAND contracts allow such negotiations, there is no basis to import artificial and rigid rules from U.S. patent damages case law that seek to assess a single value for a single patent for past infringement.

ARGUMENT

I. THE PUBLIC INTEREST FAVORS AVAILABILITY OF EXCLUSION ORDERS IN APPROPRIATE CIRCUMSTANCES

While the existence of a FRAND licensing commitment relevant to an investigation is something the Commission ought to consider in appropriate cases, exclusion orders should remain available against parties that have proven unwilling to license the relevant patents on FRAND terms. Such a rule would be consistent with the purpose and language of the relevant statute and would promote the public policy of encouraging innovation and respect for intellectual property rights.

A. Legal Principles Underlying Exclusion Orders

Section 337 provides for only two remedies: an exclusion order, and a cease and desist order. 19 U.S.C. § 1337(d), (f). By statute, the Commission is *required* to issue an exclusion order upon the finding of a Section 337 violation absent a finding that one of the Section 337(d)(1) public interest factors counsels otherwise. 19 U.S.C § 1337(d)(1) The five public interest factors set forth in Section 337(d)(1) are the effect of an exclusion order on (1) public health and (2) welfare; (3) competitive conditions in the U.S. economy; (4) the production of like or directly competitive articles in the U.S.; and (5) U.S. consumers. *Id.*

As the Federal Circuit has held, the Commission is therefore in a different position than the district courts, which are required to apply the traditional four-factor test for equitable relief before issuing an injunction:

Unlike the equitable concerns at issue in *eBay*, the Commission’s issuance of an exclusion order is based on the statutory criteria set forth in Section 337....

The difference between exclusion orders granted under Section 337 and injunctions granted under the Patent Act, 35 U.S.C. 283, follows ‘the long-standing principle that importation is treated differently than domestic activity.’ *In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, 2007 ITC Lexis 621, *102 n. 230 (U.S.I.T.C. June 19, 2007) (citing *United States v. 12 200–ft. Reels of Super 8mm. Film*, 413 U.S. 123, 125, 93 S.Ct. 2665, 37 L.Ed.2d 500 (1973)). This is reflected in the fact that the Commission has found public interest considerations to outweigh the need for injunctive relief in protecting intellectual property rights found to have been violated under Section 337 in only three investigations, all of which were decided prior to the 1988 legislative amendment...which removed the requirement that a patentee show irreparable harm. *See id.*, 2007 ITC Lexis 621 at *220.

Spansion, Inc. v. ITC, 629 F.3d 1331, 1359-60 (Fed. Cir. 2010), *rehearing and rehearing en banc denied*, March 29, 2011.¹ In each of the cases where the Commission found the public

¹ Commentators may argue that the Commission should take into account the recent order by the District Court for the Northern District of Illinois (Posner, J., sitting by designation) dismissing a patent action and stating in part that Motorola had not carried its burden of proving a right to injunctive relief on a different patent relating to 2G cellular standards because, in light of its damages positions and FRAND assurances, money damages would be adequate to compensate Motorola for Apple’s past and ongoing infringement of its patent rights. But as the Federal Circuit held in *Spansion*, those concerns should not apply here because unlike in actions for domestic infringement, “Congress intended injunctive relief to be the normal remedy for a Section 337 violation and that a showing of irreparable harm is not required to receive such injunctive relief.” *Spansion*, 629 F.3d at 1359. Moreover, Motorola respectively submits that Judge Posner’s bright-line declaration on the right to injunctive relief in district court lacked analysis of the relevant language from the ETSI or IEEE policies and procedures, and did not explain how a party’s participation in the standard-setting process was an intentional waiver of the right to pursue injunctive relief. Indeed, Judge Posner’s decision is in conflict with other courts which have issued injunctions in appropriate circumstances. *See, e.g., CSIRO v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 603-608 (E.D. Tex. 2007). Judge Posner’s decision also conflicts with the District Court for the Western District of Wisconsin’s later decision interpreting ETSI and IEEE policies, and finding that seeking injunctions or exclusionary relief is not a breach of FRAND, as discussed below in Section III.B. *See Apple v. Motorola*, 2012 WL 5416941 at *15.

interest to outweigh the need for an exclusion order, “the exclusion order was denied because inadequate supply within the United States—by both the patentee and domestic licensees—meant that an exclusion order would deprive the public of products necessary for some important health or welfare need: energy efficient automobiles, basic scientific research or hospital equipment.” *Spanston*, 629 F.3d at 1360. This precedent demonstrates that it is only in fact-specific circumstances that exclusion orders have been denied. Although a breach of FRAND commitments could result in no exclusion order when raised as a defense, simply raising the issue should not result in an automatic bar on exclusion orders.

B. Public Policy Is Promoted By Reserving Remedies For Unwilling Licensees

The laws enacted by Congress creating the patent system—including 19 U.S.C. § 1337—reflect the considered judgment that competition is best fostered by enforcement of patent rights balanced against the limitations defined by statute. *Bonito Boats v. Thunder Craft*, 489 U.S. 141, 146 (1989) (“From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”). Unless there has been a specific waiver of rights or some other recognized defense, this Commission should not upset the balance set by Congress and decide that general policy reasons should deprive a patent owner of a remedy for unlawful infringement. That is a decision for Congress to make.

The “public interest” exception to the statute has historically been narrowly and rarely applied, reflecting the proper balance between the public’s interest in competition from imported goods and the enforcement of patent rights, which has furthered technological advancement in the nation. See Brooks, *Patent “Hold Up,” Standards Setting Organizations and The FTC’s Campaign Against Innovators*, 39 AIPLA Quarterly Journal at 437 (“the Record provides strong

evidence that existing law, combined with the flexible and consensus-based policies of SDOs, have been effective in balancing the interests of all stakeholders in high-technology industries so as to stimulate investment at every step from basic research through product development to manufacture, creating jobs while bringing consumers the benefit of innovative technologies and continually improving price and performance.”).

None of the five statutorily enumerated public interest factors should *automatically* preclude exclusion orders in general for standards essential patents. An automatic rule precluding exclusion orders in all cases in which patents are subject to a FRAND commitment would dramatically expand the scope of the public interest standard. It will have unintended and negative consequences for participants in standards setting bodies, as well as the patent system. Should a FRAND defense be raised, the burden should be on the respondent—as it is with all affirmative defenses—and the ITC should evaluate all relevant facts. The alternative, allowing infringers to free-ride on the investments of others with full assurance that the ITC is powerless to prevent importation of infringing articles, would undermine the terms of the statute and the intent of the Act and the patent system.

If an implementer of standards is not willing to pay license fees like its competitors, it should not be heard to complain when it faces exclusion orders for its unlawful importation of infringing devices. Indeed, to hold otherwise harms the lawful competitors who do pay license fees. Competition is served by barring unlawful infringement where others in the market are competing legally.

II. MERE EXISTENCE OF A FRAND UNDERTAKING DOES NOT PRECLUDE EXCLUSION ORDERS

The Commission has set forth the following question:

1. Does the mere existence of a FRAND undertaking with respect to a particular patent preclude issuance of an exclusion order based on infringement of that

patent? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors preclude issuance of such an order.

No, the mere existence of a FRAND undertaking with respect to a particular patent should not lead to an automatic conclusion that exclusion orders are unavailable for the alleged infringement of that patent. Rather, the question should be whether the respondent had established that specific circumstances preclude the issuance of exclusion orders.

A. Legal Principles Concerning FRAND Defenses

1. FRAND is an affirmative defense

The Commission has not previously held that the existence or breach of a FRAND commitment is a bar to patent enforcement. The courts have recognized, however, that in certain circumstances, egregious misconduct in violation of standard setting organization policies can form the basis for a defense to patent enforcement. *See, e.g., Qualcomm v. Broadcom*, 548 F.3d 1004, 1019-1024 (Fed. Cir. 2008) (intentional breach of disclosure obligations to standards organization as basis for waiver or equitable estoppel defense). In Section 337 investigations, like in the district courts, an infringer who seeks to show a patent is unenforceable bears the burden of proving its affirmative defense by clear and convincing evidence. *Microsoft Corp. v. i4i Ltd., Partnership*, 546 U.S. ----, 131 S. Ct. 2238, 2243 (June 9, 2011); *Hynix Semiconductor Inc. v. Rambus Inc.*, 645 F.3d 1336, 1348 (Fed. Cir. 2011); *Qualcomm*, 548 F.3d at 1020; *Certain L-Lysine Feed Products, their Methods of Production and Genetic Constructs for Production*, 337-TA-571 (“L-Lysine”), Comm’n Determination at p. 47 (July 31, 2008).

As a threshold matter, however, a FRAND undertaking itself is grounded in contract, *see Apple v. Motorola*, 2012 WL 3289835 at *19-21, and should the defense be raised, the Commission must therefore first determine whether the proffered FRAND undertaking even applies to the facts adduced in the investigation. To the extent a respondent asserts that a

FRAND obligation precludes the statutory remedy, the burden should be on the respondent to come forward with evidence of the defense, including the specific commitment in question and the rules and policies of the standards organization that governs the issue. Different standards bodies have different rules and different FRAND commitments. Standards bodies such as ETSI and the IEEE do not preclude injunctions or exclusion orders and recognize that the rights of patent holders should be protected. Likewise, different industries have different expectations. For participants in the cellular and wireless industry, cross-licensing and market place negotiations and the availability of judicial relief against parties that are unwilling to license have served the market and United States consumers well over the years.

The Commission should, therefore, assess what impact FRAND commitments have on the availability of exclusion orders on a case-by-case basis.² Indeed, the facts in some cases may show that issuance of an exclusion order is wholly appropriate—especially where, for example, the respondent infringer is an unwilling licensee—and that remedy would support and uphold the incentives of the U.S. patent system.

² Several earlier Section 337 investigations in which respondents proffered FRAND defenses illustrate the point. For example, in *Certain Optoelectronic Devices, Components thereof, and Products Containing Same*, Inv. No. 337-TA-669, the respondent argued as a defense that it was entitled to a license on reasonable and non-discriminatory terms; based on the facts in that case, the ALJ concluded in an initial determination that under the language of the relevant SDO policies, the patent-in-suit was not subject to FRAND, and the Commission issued a limited exclusion order. *Optoelectronic Devices*, 2011 WL 7628061. Likewise, in *Certain Semiconductor Chips and Products Containing Same*, Inv. No. 337-TA-753, respondent raised a defense that the asserted patents were subject to FRAND obligations preventing complainant from seeking injunctive relief in any forum, including at the Commission; based on the facts in that case, the ALJ concluded in an initial determination that the asserted patents were not subject to FRAND under the relevant SDO bylaws. *Semiconductor Chips*, 2012 WL 927056, Initial Determination, at 179.

2. There is no injury requirement for an exclusion order

While a particular patentee's violation of its FRAND licensing obligations to a particular potential licensee might preclude it from excluding that respondent's products, the Commission should reject any argument that the *only* remedy available for infringement of FRAND-obligated patents is a FRAND royalty, because to accept this argument would improperly impose an injury requirement on issuing an exclusion order. *See, e.g., In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter, and Receiver (Radio) Chips, Power Control Chips, and Prods. Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Comm'n Op., 2011 WL 6121182 at *68 ("We must also ensure that, in conducting our public interest analysis, we do not improperly impose any injury requirement. When the statute was amended in 1988, as part of the Omnibus Trade and Competitiveness Act, to remove the injury test in patent-based cases, the legislative history made it clear that the Commission is not to reintroduce an injury test in its consideration of the public interest factors.") Unlike in the district courts, where a plaintiff seeking an injunction must show that it will suffer irreparable harm, the Commission must not require complainants to make such a showing in order to obtain relief under Section 337. Congress specifically removed from Section 337 any requirement of showing irreparable harm to the domestic injury to strengthen the effectiveness of the Commission in preventing infringement by importation. *See* H.R.Rep. No. 100-576, at 633, 1988 U.S.C.C.A.N. 1547, 1666 (1988) (Conf.Rep.) (stating that the bill "removes the requirement to prove injury ... with regard to certain intellectual property rights cases involving patents"); S.Rep. No. 100-71, at 128 (1987) ("The fundamental purpose of the amendments made by section 401 is to strengthen the effectiveness of section 337 in addressing the growing problems being faced by U.S. companies from the importation of articles which infringe U.S. intellectual property rights."); *id.* at 129 ("The Committee does not intend that the ITC, in

considering the public health and welfare, or the President, in reviewing the ITC's determination on policy grounds, will reintroduce these requirements.”); *accord* H.R. Rep. 100-40 at 156 (1987).

B. Precluding a Remedy for All Essential Patent Owners Would Create Disincentives To License

The creation of a categorical rule that a patent holder cannot obtain an injunction (including an exclusion order) for a FRAND-committed patent would encourage infringers to ‘hold out,’ rather than voluntarily negotiate a license, knowing that they would not be subject to any ban on the importation of infringing articles. Indeed, implementers have taken the position that patent holders do not have the right to seek a FRAND determination by a court. If that is true, and if exclusion orders are not available on SEPs, then the only recourse that an SEP holder has would be to seek damages on a patent by patent basis. The transaction costs of investigating and litigating each patent in the standards-essential portfolio would be cost prohibitive because the patent holder would have to assert and prove validity and infringement for each patent in the portfolio.

The practice of portfolio cross-licensing between willing parties, underpinned by the availability of judicial remedies against unwilling licensees, has served the industry well and led to significant advances in cell phones over the years. Portfolio licensing as in the standards context has pro-competitive effects. For instance, the 1995 Guidelines issued by the Department of Justice and Federal Trade Commission recognize that cross-licensing is an efficient practice: “These arrangements may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation. By promoting the dissemination of technology, cross-licensing and

pooling arrangements are often procompetitive.” U.S. Dept. of Justice and Fed. Trade Comm’n, *Antitrust Guidelines for the Licensing of Intellectual Property*, Section 5.5 (1995)

Any categorical rule prohibiting injunctive relief on standards-essential patents would also undermine the Commission’s statutory mandate to prevent the unlawful importation of infringing products. Absent an exclusion order, the only risk an infringer would face would be the possibility of a damages judgment—limited to pre-standardization value of the individual patents on which the patentee has expended the time and resources to litigate infringement claims to final judgment—and that only after many years of appeals.³ A prospective licensee would therefore know that the most the patent holder can ever recover would be a small fraction of the total value of the portfolio and that the patent holder will have to spend considerable sums to collect such value through the legal system. The effect would be that no rational implementer would ever license a standards-essential portfolio for anything more than a fraction of what the parties agree to be the collective value of the patents in the portfolio. Infringers should not be permitted to exploit the high costs and inefficiencies of litigation to pay lower than fair market value for a license, knowing that it will be too expensive for a FRAND licensor to collect.

Therefore, the Commission should treat the question of whether an exclusion order should issue against a party that is unwilling to take a license and instead continues to infringe FRAND-committed patents the same as it does for any other patent. A FRAND licensing commitment cannot mean that an infringer can refuse to negotiate, import infringing articles for years on end, and at worst only pay a fraction of the FRAND rate through piecemeal damages actions.

³ And for many importers whose assets are not located in the United States, that risk would come to pass only if the patentee was successful in *collecting* on the judgment, one of the problems that Section 337 is designed to avoid.

C. Precluding a Remedy Would Create Disincentives For Consensus-Based Standards Development

A categorical rule precluding exclusion orders would also create disincentives for innovators to contribute to standards setting organizations because the resulting inability to obtain fair compensation from parties that are unwilling to license would dramatically devalue patentees' intellectual property. Over the last few decades, the major SEP holders have spent tens of billions of dollars in mobile research and development, which has led to the rapid development of technological standards that enable a dizzying array of devices. This has been the result of industry innovators being incentivised to participate in standards setting bodies and to contribute their ideas and technology to the development of standards that others can implement. Patent holders have made these contributions over the years, understanding that they would receive reasonable compensation for use of their intellectual property and the right to seek a remedy against implementers that refused to provide such compensation. Depriving innovators of an established remedy against an unwilling licensee who may engage in a successful "hold out" creates a disincentive to participate and contribute in the future. It would do a great disservice to the standards setting organizations, which have been so successful over the years, to impose rules that deprive members and contributors of remedies they would otherwise be entitled to. More significantly, discouraging participation in SDOs may retard the development of the next generation of transmission protocols and devices, with potentially devastating consequences for one of the most innovative sectors of the American economy.

D. Equitable Principles Support No Automatic Preclusion of Exclusion Orders

A respondent can raise equitable and legal defenses in an ITC action. As such, breach of a FRAND commitment is and ought to be an affirmative defense to be proved at trial. With respect to remedies and equity, an exclusion order is a statutorily mandated remedy for the

importation of infringing articles. It is not the same as an injunction in equity issued by a district court, which has at hand a range of legal and equitable remedies. To the extent that an exclusion order is analogous to an injunction, the Supreme Court has ruled that there are no automatic rules for injunction. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (“the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity”). Thus, even under principles of equity, an automatic rule precluding injunctions would be inappropriate.

III. THERE SHOULD BE NO RIGID FRAMEWORK FOR EVALUATING FRAND OFFERS

Question 2 asks:

Where a patent owner has offered to license a patent to an accused infringer, what framework should be used for determining whether the offer complies with a FRAND undertaking? How would a rejection of the offer by an accused infringer influence the analysis, if at all?

In light of the facts and legal principles discussed above, Motorola hereby responds to Question 2 raised by the Commission as follows.

A. The Parties' Course Of Conduct And Related Factors Should Be Considered

In the bilateral negotiations contemplated by standards setting bodies such as ETSI, the offer by one party or the other is only the starting point for a complex process. This was recognized in recent litigation in the district courts:

Because the IEEE and ITU [FRAND] agreements anticipate that the parties will negotiate towards a RAND license, it logically does not follow that initial offers must be on RAND terms. Here, critical to the court is the observation that RAND terms cannot be determined until after a negotiation by the parties (or, in this case, after a court determines RAND terms because the parties cannot agree.

Microsoft Corp. v. Motorola, Inc., No. 2: 10-cv-1823-JLR, slip op. at page 24 (W.D. Wash. June 6, 2012) (“RAND terms cannot be determined until after a negotiation by the parties (or, in this case, after a court determines RAND terms because the parties cannot agree).”).

Indeed, for the standards at issue in that case, the Court recognized that requiring a patent holder to "make unsolicited offers of RAND terms would frustrate this purpose [of ensuring access to standards] by discouraging the standard essential patent holder to make initial contact with implementers for fear that it will later be sued for making an initial offer that is later determined as not RAND." *Id.* Thus, the Court concluded that initial offers need not be RAND per se, but instead the initial offer and any offers during the back and forth process of negotiation, "must comport with the implied duty of good faith and fair dealing inherent in every contract." *Id.* at page 25. This conclusion thus recognizes the realities of evaluating a patent holder's conduct and measuring that conduct against the actual undertaking and contract in question.

Thus, in response to the Commission's question, should a FRAND defense be raised, the "framework" should not be rigid, but the issue assessed on a case-by-case basis, considering all available facts concerning the parties' license negotiations. The entire course of negotiations between the parties, as well as the specific financial terms of their respective offers, must be considered.

B. Courts Have Recognized The Difficulty In Defining An Appropriate Methodology

The recent line of decisions by the District Court for the Western District of Wisconsin in *Apple Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, provides an illustrative example of how a court may assess a patent owner's compliance with a FRAND commitment. In that case, involving counterclaims initially asserted in and removed from the ITC pursuant to statute, Apple asserted that Motorola's initial license offer, attempts to negotiate, and attempts to enforce standards-essential patents in a Section 337 investigation before this Commission and in the district courts were not in compliance with Motorola's FRAND commitments to standards

bodies. The case was dismissed on November 5, 2012. *See Apple Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, slip op., Dkt. 503 (W.D. Wis. Nov. 8, 2012) (explaining reasons for dismissal).

The Court initially concluded that Motorola, as a standards-body member and participant, “entered into binding contractual obligations with ETSI and IEEE to license its declared essential patents on fair, reasonable and non-discriminatory terms.” *Apple v. Motorola*, 2012 WL 3289835 at *19. The Court considered “the combination of the policies and bylaws of the standards-setting organizations, Motorola’s membership in those organizations and Motorola’s assurances that it would license its essential patents on fair, reasonable and nondiscriminatory terms” in reaching its conclusion. *Id.* at *19-21.

Applying contract law to its interpretation of the standards body policies at issue, the Court further determined that requesting an injunction or exclusion order in a patent infringement action does not constitute a breach of Motorola’s FRAND commitments to ETSI and IEEE. *Apple v. Motorola*, 2012 WL 5416941 at *15. The Court noted that none of the FRAND commitments at issue “expressly precludes Motorola or any patent owner from pursuing an injunction or other relief as a remedy for infringement.” *Id.* The Court went on to determine that any policy purporting to deprive a patent owner of the right to seek statutory remedies must clearly do so:

There is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief. Moreover, in light of the fact that patent owners generally have the right to seek injunctive relief both in district courts, 35 U.S.C. § 283, and in the International Trade Commission, 19 U.S.C. § 1337(d), I conclude that any contract purportedly depriving a patent owner of that right should clearly do so. The contracts at issue are not clear.

Id. Thus, in that case the Court determined that the mere existence of a FRAND commitment does not bar the issuance of an exclusion order.

Of particular bearing in the instant Investigation, the district court rejected the suggestion that it could determine a “method” for assessing FRAND that would apply to all patents. In an attempt to avoid dismissal of its claims, Apple proposed that it would be willing to accept a judicially-determined FRAND rate provided that the Court would construct a “method” for determining FRAND and apply that method to Apple’s own patents. *See Apple v. Motorola*, Dkt. 503 at 6. The Court rejected Apple’s suggestion that it could construct a one-size-fits-all method for determining a FRAND rate:

From the arguments that Apple made, it is not realistic to think that a court could construct a “method” into which the parties could insert numbers to produce a fair valuation of a company’s patent portfolio in a given area of technology...Each proposal exposes more of the difficulties inherent in trying to pick a particular monetary rate for an agreement as complex as a licencing [sic] fee for rapidly changing technology. Apple has not explained how it is possible to determine a rate without knowing the answers to such questions as how a cross-license to the other party’s patents may effect that rate or what the scope of the license is (a worldwide license will be more valuable than a license to sell in only one country or only a few countries); what guarantees are incorporated into the agreement; the length of the agreement; or the frequency of payments. In effect, Apple is asking the court to assess one part of a complex contract that has yet to be negotiated.

Id. at 10.

The same concerns apply when assessing whether an offer to license complies with a patent-owner’s FRAND obligations in the context of a Section 337 investigation. The complicated, case-specific nature of many negotiations for portfolio-wide technology licenses resists the application of a rigid framework for assessing FRAND because such a framework cannot reasonably account for all of the factors that may be important to particular parties in a

particular negotiation. Accordingly, the Commission should likewise decline to adopt a one-size-fits-all method for assessing compliance with FRAND commitments.⁴

CONCLUSION

Motorola respectfully requests that the Commission consider this submission in ruling on issues raised in the above-captioned investigation.

⁴ Motorola does note, however, that in *Microsoft v Motorola*, No. 10-cv-1823 (W.D. Wash.), the Court is attempting to find a methodological framework for analyzing the FRAND rate applicable in a particular contract setting between Microsoft and Motorola regarding the IEEE's 802.11 standard and the ITU's H.264 standard. There the Court is attempting to craft a flexible methodology based on a hypothetical negotiation between the parties, which includes facts unique to the actual circumstances of the parties involved.

**In the Matter of Certain Electronic Devices, Including Wireless Communication Devices,
Portable Music and Data Processing Devices, and Table Computers**

Inv. No. 337-TA-794

CERTIFICATE OF SERVICE

I, Jon Tap, hereby certify that on this 3rd day of December, 2012, copies of the foregoing document were served upon the following parties as indicated:

<p>The Honorable Lisa R. Barton Acting Secretary U.S. International Trade Commission 500 E Street, SW Washington, D.C. 20436</p>	<p><input type="checkbox"/> Via First Class Mail <input checked="" type="checkbox"/> Via Hand Delivery (8 copies) <input type="checkbox"/> Via Overnight Courier <input type="checkbox"/> Via Electronic Mail <input checked="" type="checkbox"/> Via EDIS</p>
<p>The Honorable E. James Gildea Administrative Law Judge U.S. International Trade Commission 500 E Street, SW Washington, D.C. 20436 Email: sarah.zimmerman@usitc.gov</p>	<p><input type="checkbox"/> Via First Class Mail <input checked="" type="checkbox"/> Via Hand Delivery (2 copies) <input type="checkbox"/> Via Overnight Courier <input checked="" type="checkbox"/> Via Electronic Mail</p>
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/s/ Jon Tap _____
Jon Tap